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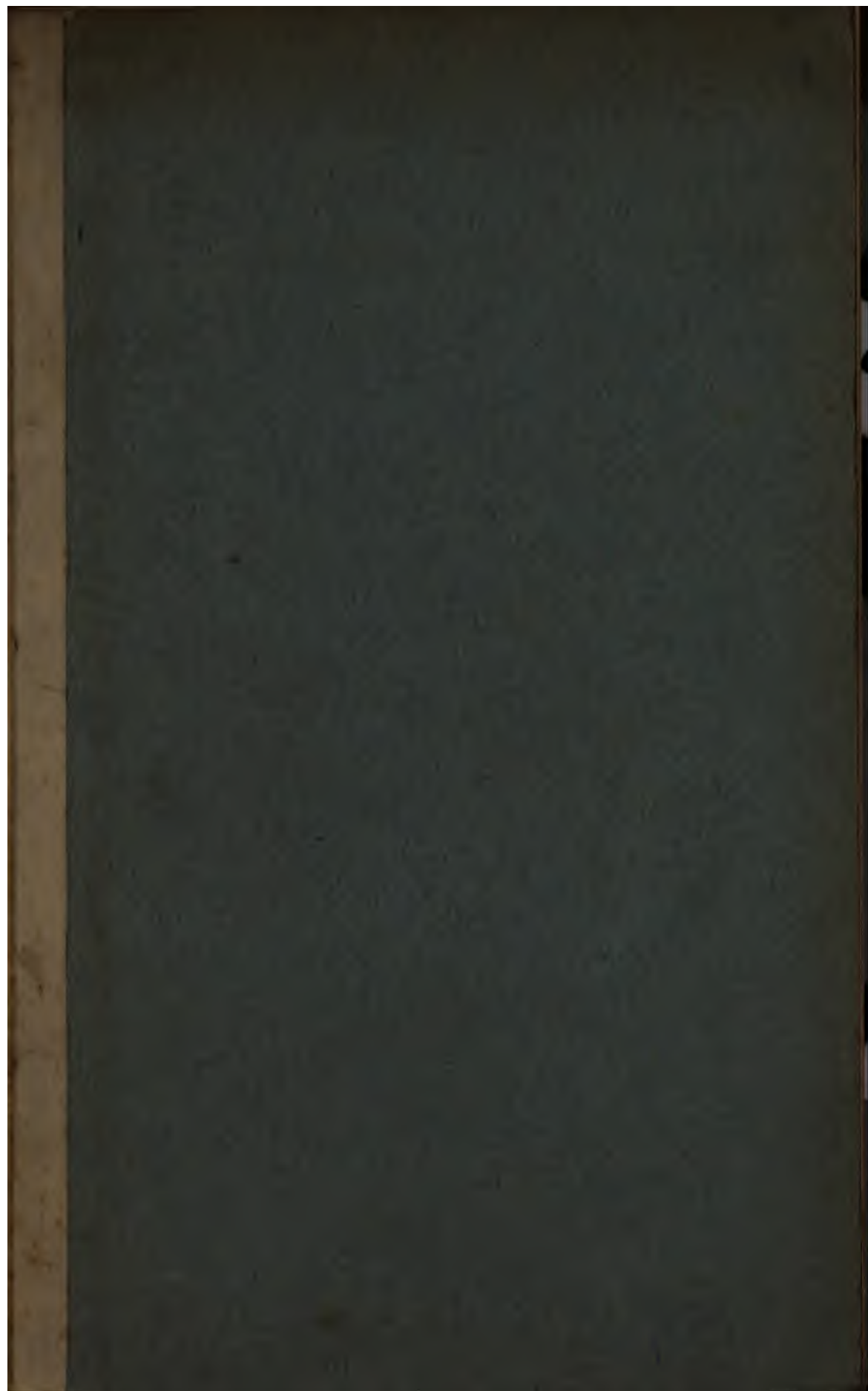
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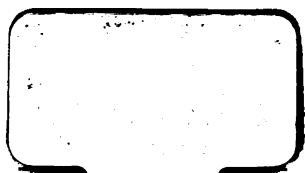
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THE BUDGET OF 1885.

SPEECH

OF THE



RIGHT HON. H. C. E. CHILDERS, M.P.,

(CHANCELLOR OF THE EXCHEQUER),

ON MAKING THE

FINANCIAL STATEMENT.

DELIVERED

IN THE HOUSE OF COMMONS,

THURSDAY, APRIL 30, 1885.

EXTRACTED FROM

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1885.

SPEECH.

HOUSE OF COMMONS,

Thursday, April 30, 1885.

WAYS AND MEANS.—COMMITTEE.

WAYS AND MEANS—*considered in Committee.*

(In the Committee.)

THE CHANCELLOR OF THE EXCHEQUER (Mr. CHILDERS), in rising to move the 1st Resolution, said: Sir Arthur Otway, I will commence by asking the Committee to forgive me if, on this occasion, I do not give them as many figures in comparison of details as it has been generally the custom of my Predecessors to give. I shall have a long Statement to make to the Committee, and I would, therefore, as far as I can, shorten those parts of it which hon. Members will be able to obtain for themselves from the Papers which are now in their hands.

I will first carry back the Committee to the Statement which I made on the 17th November last, when I asked the House to give us additional Ways and Means in connection with the military operations which had been undertaken in the Soudan. I gave, on that occasion, the result up to that time of the Budget Estimates of Revenue and Expenditure, including certain additional Estimates connected with the Civil Service voted after the Budget, but excluding special War Votes; and I stated that the surplus, so corrected, might be taken at £106,000. But I said that the House had also passed a Vote of Credit for £300,000, and had later voted £1,324,000, in the shape of additional Naval and Military Esti-

mates for the Soudan Expedition, and £725,000 for the Bechuanaland Expedition, so that, altogether, there had been an approved expenditure of £2,349,000 beyond the Budget Estimate. Allowing for some improvement in the Revenue, I calculated the deficit roughly at £2,000,000; which we proposed to meet by an additional Income Tax of 1*d.* in the pound, producing £1,200,000 in the last financial year, and £720,000 in the present financial year.

I was pressed, on that occasion, on two points. I was asked, in the first place, whether £2,349,000 would, in my opinion, probably suffice for the expenditure in connection with the Nile Expedition and Bechuanaland, and I was also asked for further information as to the probable improvement in the Revenue for 1884-5. With reference to the first, I stated that there had been very extravagant rumours in the Press as to the expenditure then going on; but I estimated that the amount named by my noble Friend the Secretary of State for War (the Marquess of Hartington) and by my hon. Friend the Secretary to the Admiralty (Sir Thomas Brassey), and voted by this House, would be sufficient. As to the second question, I stated that I must decline to name any particular figure, but that I thought we might look for a reasonable and a fair improvement.

And now, Sir Arthur Otway, the Committee will be glad to know what is the outcome of the Revenue and the Expenditure for 1884-5. In the first place, the expenditure on the Nile Expedition and in Bechuanaland has not exceeded, but has fallen short of, the Vote taken last year. On the other hand, two circum-

stances have largely disturbed my anticipations. Three months after I spoke Khartoum was betrayed, and the Expedition to Suakin was in consequence ordered. That was one source of very large expenditure, affecting the Estimate I had made in November; and the other disturbing cause was the great delay in settling Egyptian finance, and in the consequent issue of the loan out of which a large amount of money due to the English Treasury would be paid. This, we had in November no reason to doubt, would come into the Exchequer during the course of the last financial year. The amount so due was, in all, no less than £544,000, and consisted of £340,000 for the Army of Occupation, and £200,000, a-year's interest on the Suez Canal shares. On the other hand, as against these disappointments, the Revenue has come in much better than we could have expected; and this, I may say, is mainly due to the energy and efficiency of the officers of the Inland Revenue Department, but partly to the fact that before the end of the financial year large payments were made at the Custom Houses in anticipation that increased rates of duty would be imposed on certain articles. The actual deficit for the year 1884-5, the detail of which I shall give in a few minutes, was £1,050,000; and if we add to this the amount of the estimated Revenue paid in anticipation of increased duties, say about £300,000, we may take the corrected deficit of last year at £1,350,000. But the sum due from Egypt, the payment of which has been postponed to this year, was £544,000, and the actual expenditure in connection with the Suakin Expedition was £964,000, giving a total of £1,508,000. Therefore, but for the betrayal of Khartoum and the consequent Expedition to Suakin, and for the delay in the payment of the money due from Egypt, my nominal surplus for the year would have been £458,000, and the real surplus, allowing for the £300,000 paid in anticipation of increased duties, would have been £158,000. The Committee will, of course, recognize that I could not possibly, in the month of November, have based any Estimate upon the betrayal of Khartoum, which did not occur until the following January, or upon the postponement of the Egyptian payments, which we then fully expected to receive before the end of March; and

that, therefore, it would have been absolutely impossible for me to have asked then, on these accounts, for additional taxation in Committee of Ways and Means. It will be, I repeat, satisfactory to the Committee to see that, but for the unforeseen circumstances to which I have alluded, we should have had in 1884-5 a nominal surplus of £458,000, and a real surplus of £158,000.

From these general considerations I will now pass to the salient features of the Expenditure and the Revenue of 1884-5. In comparing both with those of 1883-4 there is one item which I must carefully eliminate—namely, the Indian Home Charges, which we now, wisely I think, omit from both sides of the account, I will take, first, the permanent charge for the Debt, which was £28,884,000; being somewhat less than that of 1883-4 by £90,000, but the same as my Estimate. The interest on local loans was £465,000; less than that of 1883-4 by £13,000, and less than my Estimate by £60,000. The interest on the Exchequer Bonds connected with the Suez Canal share purchase was £200,000, the same as that of last year and the same as my Estimate; and the other charges on the Consolidated Fund were £1,479,000; less than those of 1883-4 by £111,000, and less than my Estimate by £16,000. On the items which I have named nothing calls for observation except in relation to the Debt charge, as to which I will give the Committee some information further on in my Statement.

The Supply Services give the following results. The Army expenditure, including the Vote of Credit for the relief of General Gordon and all Supplementary charges, amounted to £18,955,000, exceeding the Budget Estimate by £3,024,000 and the expenditure of 1883-4 by £3,045,000. Of the total, £292,500 was voted to make good the Egyptian contribution, so that the net actual excess over the 1883-4 charges was £2,753,000. The Navy cost £11,427,000, being more than the Budget Estimate by £615,000, and more than the expenditure of 1883-4 by £698,000. Of the total, £52,000 was due to the necessary Vote to make good the part of the Egyptian contribution credited to Naval Votes, making the actual Navy charge £646,000 in excess of that in 1883-4. The grant to India for the Afghan War was £250,000,

which was the same as the Budget Estimate, but less than that of the previous year by £750,000. The Civil Service expenditure was £17,562,000; more than the Budget Estimate by £318,000, and more than the expenditure of 1883-4 by £380,000. Of this increase of £318,000 over the Budget Estimate, almost the whole, or £282,000, was due to additional expenditure, under Class IV., for educational purposes. The Customs and Inland Revenue expenditure amounted to £2,745,000, being more than the Budget Estimate by £11,000, and less than the expenditure of 1883-4 by £27,000. The Post Office expenditure was £4,666,000, being more than the actual expenditure of the year before by £159,000. The expenditure on the Telegraph Service was £1,731,000, being more than the expenditure of 1883-4 by £24,000. The expenditure on the Packet Service was £729,000, being more than the actual expenditure of the previous year by £8,000. Thus the total Expenditure for the last year, 1884-5, was £89,093,000, being more than the Budget Estimate, which was £85,292,000, by £3,801,000, and exceeding the Expenditure of the previous year—which was £85,770,000—by £3,323,000.

Now, I pass to the Revenue of last year. The Customs produced £20,321,000; but of this, as I have said before, some £300,000 was due to acceleration of payment in consequence of anticipations of fresh duties being imposed, leaving the real Revenue about £20,021,000. The Excise produced £26,600,000, the two together producing £46,621,000. My Estimate for those two heads of receipt was £46,628,000, the Receipt for the previous year having been £46,653,000, including, however, an additional amount for Railway Duty to the extent of £355,000. As in previous years, I will now give the Receipts of those two Departments, eliminating from each the amount received for spirits, and then the amount of the Spirit Duties under the two Departments taken together. The amount of the Customs' receipts, corrected as to anticipated payments and less the amount of the Spirit Duty, was £15,713,000, my Estimate having been £15,650,000, and the produce of the previous year having been £15,440,000. The Excise also, eliminating Spirits, produced £12,613,000, my Estimate having been

£12,478,000, and the produce of the previous year, including the additional Railway Duty of £355,000, having been £12,825,000. Under the head of Spirits, the duties collected during the past year by the two Departments amounted to £18,295,000, the Budget Estimate having been £18,500,000, and the produce of the previous year having been £18,436,000. I may, therefore, fairly sum up the general result of these figures, in connection with the Customs and Excise receipts, as follows. They show a slow and continued falling-off in the duties from spirits, and, I may add, a slight fall in those derived from wine; they show a continued slow rise in the other chief duties; and, as I am bound to state, for the credit of the gentlemen concerned, they show a great accuracy in the forecast of the Revenue Departments. I may add, in passing, that they also show a specially satisfactory progress under two heads, those of tea and tobacco, both of which are, in a large degree, indicative of the progressive well-being of the nation.

I now go from these great branches of Revenue to the Receipt from Stamps. Stamps produced £11,925,000, being more than the Budget Estimate—which was £11,490,000—by £435,000, and more than the amount they produced in 1883-4—which was £11,620,000—by £305,000. This increase is due to the special steps taken last year to bring in outstanding amounts due for Legacy and Succession Duties, a successful effort having been made to reduce these outstanding amounts to the extent of about £400,000. The Land Tax produced £1,065,000, and House Duty £1,885,000, the amount of the latter tax rising very slowly, as it has been doing for some time. The Income Tax at 6d. in the pound produced £12,000,000, my Estimate having been £11,250,000, which it exceeded, therefore by £750,000. The amount of the receipt from this tax at 5d., with some remains of the 6½d. tax, was in the previous year £10,718,000. The causes of this great increase in the production of this tax are very easy to explain. In the first place, a larger amount than we expected had been left over from the previous year 1883-4, so that the original Estimate formed from previous experience turned out to be too low to the extent of nearly £200,000; and, in the second place, we have got more than we expected out of

the additional 1*d.* imposed in the month of November; the Act itself not having passed, in fact, until the month of December. We had at that time to guide us only one precedent of an addition to the Income Tax so late in the year; and that was the additional 1*d.* imposed by the late Mr. Ward Hunt in 1867-8, which produced far less than he expected. Fortunately, however, the Inland Revenue Department were able to overcome the greater part of the difficulties which, having only this one precedent before them, they anticipated. But the principal cause of the great increase over my Estimate was the activity of the Department, not that they got in a larger amount, but that they got it in earlier. I may add to this that a good many collections have lately fallen in. Now, I will ask the House to put together the Receipts from taxation which I have just enumerated. They will find that the total is £73,796,000. My Estimate had been £72,303,000, and the Receipts of the previous year were £71,886,000.

Now, Sir, I pass to the Revenue which is not in the nature of taxation.

SIR WALTER B. BARTELOT: What about the Beer Duty?

THE CHANCELLOR OF THE EXCHEQUER (Mr. CHILDERS): My hon. and gallant Friend will hear more of that before I have done. The Post Office produced £7,905,000. That is £5,000 more than the Estimate, and £175,000 more than the Receipt of the preceding year. The Telegraph Service produced £1,760,000, or £40,000 less than the Estimate, and £15,000 more than it produced last year. The Crown Lands produced £380,000, which was the same as the Estimate, and the same as the Receipt of last year. The Miscellaneous Revenue was £3,175,000, or £5,000 more than the Estimate, and £68,000 below the Receipt of last year. I have corrected, as I said I would, the item of Miscellaneous Revenue by omitting the Receipt for Indian Home Charges. There is one branch of the Non-Tax Revenue on which I wish to make a remark — namely, the interest on advances, which produced £1,027,000, or less than the Estimate by £153,000, and less than the Receipt of the previous year by £169,000. Most of the items making up this total were slightly better, and the decrease was due en-

tirely to one of them — namely, the non-payment by the Egyptian Government of the interest on the Suez Canal Loan, amounting to £199,000. The total Receipts not connected with taxation amounted to £14,247,000, which was somewhat under the Estimate, and very nearly the Receipt of the previous year, £14,294,000. Adding this to the Receipt from Taxes, we have for the year 1884-5 a total Revenue of £88,043,110, and a total Expenditure of £89,092,883, showing a deficit of £1,049,773, or, practically, £1,050,000.

At this point of the Financial Statement it is usual for the Chancellor of the Exchequer to give the Committee some information on the subject of the National Debt. In the last two years, there have been two very important operations in connection with the Debt. In 1883-4 we converted a large amount of Funded Debt into Terminable Annuities, and in 1884-5 we converted a large amount of Three per Cent Funded Debt into Two-and-Three-quarters and Two-and-a-Half per Cent Stock. The details of these conversions have been already laid upon the Table. On the 31st of March, 1880, the Funded Debt stood at £710,476,000; on the 31st of March, 1884, it stood at £640,631,000; and it has been reduced this year to £640,182,000. The Funded Debt has therefore been reduced since March, 1880, by £70,294,000, and during the last year by £449,000. But the conversion which was made last year into Two-and-a-Half and Two-and-Three-Quarters per Cents nominally increased the capital of the Funded Debt; and the Committee, therefore, may be curious to know what the reduction in the Funded Debt would have been if the Three per Cents were valued at par, the Two-and-Three-Quarters per Cents at two per cent less than par, and the Two-and-a-Half per Cents at 8 per cent less than par. On that basis, the reduction of the Funded Debt since 1880 would be £72,712,244, and last year it would be £2,080,587; and it should be remembered that this calculation includes the conversion some years ago of £7,750,000 Exchequer Bonds into £8,600,000 Consols and Two-and-a-Half per Cent Stock.

But we have not only to do with the Funded Debt. We have to compare the Unfunded Debt and the Terminable Annuities, and also to take into comparison

the loans we have made and the state of our balances. During last year the Unfunded Debt was reduced by £77,000. The value of Terminable Annuities, calculated on the principle proposed by my right hon. Friend the Member for the City of London (Mr. Hubbard), of taking them in Consols at par, is £5,514,000 less than it was last year. To this must be added the actual reduction in the Funded Debt of £449,000, and a small diminution of other liabilities to the extent of £26,000, making altogether £6,066,000. On the other hand, we must deduct the diminution in the balances, which were less by £639,000, and the diminution in the amount of the loans recoverable, estimated at £480,000, making together £1,119,000. The net diminution of the Debt last year therefore amounted to £4,947,000; or, if it were corrected with respect to Two-and-Three-Quarters and Two-and-a-Half Stock, in the way which I have just described, the diminution of the Debt last year would have been £6,579,000, and the diminution in the five years from March, 1880, to March, 1885, would have been £32,404,000.

Here, perhaps, I may say, in passing, that we have now paid off the whole of the War Charges bequeathed to us by the late Government—namely, £7,850,000, and all but £250,000 of the £5,000,000 which we ourselves recommended should be granted to India on account of the Afghan War; the two sums together amounting to £12,600,000 in the five years, or rather more than £2,500,000 a-year.

And now, Sir, I will pass from the year 1884-5, and the movement of the Debt in that year, to the present year, 1885-6. I will take first the estimated Expenditure, comparing it with the Estimates of last year, and giving the result. The permanent charge of Debt we put down at £28,037,000—less than the Budget Estimate of last year by £847,000. Of that sum £800,000 is due to the falling in of what are called the Russo-Turkish and Afghan War Annuities, constructed by the right hon. Gentleman opposite (Sir Stafford Northcote) in 1880, and £47,000 is due to the saving from the conversion into the Two-and-a-Half and Two-and-Three-Quarters per Cents. The interest on local loans we estimate at £552,000, and the interest on the Suez Canal Bonds at £200,000. The other charges on the Consolidated Fund we

take at £1,760,000—greater than last year's Estimate by £265,000, and greater than last year's Expenditure by £281,000. This increase is partly due to a charge appearing this year, as in some former years, of £110,000 for the localization of the Military Forces, but mainly to the charge of £150,000 in aid of Indian Non-Effective Charges. I promised the right hon. Gentleman the Member for Westminster (Mr. W. H. Smith) that I would, on this occasion, give to the Committee as clear an explanation as I could of the nature of that transaction, the details of which are explained in a Treasury Minute. This £150,000, then, is the first payment of the Annuity which I shall ask to create in order to make good the deficiency on account of the Indian Non-Effective Service. I have laid Papers on the Table which explain the arrangement between the Imperial and Indian Governments for the adjustment of the Indian share of Army pensions paid out of Army Votes. From these Papers it will be seen that, though the Imperial Government did not intend to pay out of British taxes any part of the charge of the Indian Army, yet, in effect, they did so; and that up to 1870 the payments made by India were quite insufficient to meet the charge of Indian Army pensions on Army Votes. In 1870 a juster principle of charge, as between the two Governments, was adopted; but it was, unfortunately, agreed that the Indian share of Army pensions should be capitalized year by year. The arrangements were made, I think, without sufficient actuarial assistance. As the capitalized sums far exceeded the charge in the year of the pensions capitalized, the sums received from India should, of course, have been carried to a fund out of which only so much should have been paid to the Exchequer as represented the charge of Indian pensions paid out of Army Votes. Even had this been done, the Non-Effective Account would not have been solvent, as the rate of interest upon which the calculation rested was too high, and because, from one cause or other, the payments by India were always in arrear. But no fund was created. The sums received from India were paid over to the Exchequer direct, and thus current Budgets profited at the expense of Budgets to come. In 1881 my right hon. Friend, then Chan-

cellor of the Exchequer, and Lord Frederick Cavendish, then Secretary to the Treasury, put a stop to this unsound system, which had obtained since 1870. The War Office actuaries have investigated the position of the account, and their Reports clear up what has become a very complicated transaction. In effect, they show that to make the account solvent we ought to have had, on the 31st of March, 1884, somewhat more than £4,000,000, which we had not got. After careful consideration, we have come to the conclusion that it will be better to put a stop to capitalization altogether, and to ask India only to pay, year by year, her share of Army pensions granted since the 1st of April, 1884. This, however, would create a very heavy charge on the Army Estimates in this and succeeding years, for which neither we nor our Successors are responsible; and I propose, accordingly, to create a fund in the hands of the National Debt Commissioners to transfer to them all capitalization moneys in our hands or receivable from India, and also to pay them yearly a sum of £150,000 from the Consolidated Fund. The National Debt Commissioners would pay each year, out of the funds in aid of Army Estimates, the exact sum which the actuaries report to be the charge on Army Estimates in the year, of Indian pensions granted between the 1st of April, 1870, and the 31st of March, 1884. This arrangement would be renewed from time to time. I propose shortly to bring in a Bill making the necessary arrangements to carry out this operation.

The Consolidated Fund Charges altogether are estimated at £30,549,000, which is less than the Expenditure of last year by £479,000.

I now come to the Estimates for the voted Services. The Estimate for the Army is £17,751,000; which is greater than the original Estimate for last year by £1,820,000, although it is less than final Expenditure, including the Vote of Credit and the Supplementary Estimates, by £1,205,000. In these Estimates is included a special item, not of annual occurrence, of £500,000 for the Bechuanaland Expedition. On the other hand, as I have already explained, last year's Estimates included a payment of £292,500, due to the non-receipt of the Egyptian contribution to the expenses of

the Army of Occupation. The Navy Estimates amount to £12,386,000, which sum is greater than last year's original Estimate by £1,575,000, and greater than the actual Expenditure by £959,000. To be quite accurate, there are two small corrections to be allowed for of about £50,000 each; one for Bechuanaland this year, and the other in the Egyptian contribution last year, and the two just balance each other. The Afghan War grant will be this year £250,000, which is the same as last year's Estimate and grant; and I congratulate the Committee upon this being the last instalment we shall have to pay. The Miscellaneous Civil Service Estimates amount to £17,687,000; the Budget Estimate last year having been £17,244,000, and the actual Expenditure £17,562,000. This increase, like that of last year, is due to the Educational Estimates in Class IV., which are more by £391,000 than last year's Budget Estimate, and £109,000 more than the actual Expenditure. The other classes of the Civil Service Estimates pretty fairly balance each other. The Customs and Inland Revenue Services will cost £2,801,000; the Post Office, £4,855,000, or £189,000 more than last year's actual Expenditure, which was £4,666,000; and the Telegraph Service, £1,840,000, or £109,000 more than last year's Expenditure, which was £1,731,000. The Packet Services will cost £754,000, a trifle over the amount last year. Adding together all the voted Services, we get a total of £58,323,000; which, when compared with £54,188,000, the Budget Estimate of last year, shows an increase of £4,135,000; or an increase of £258,000 over the actual Expenditure, £58,065,000. To sum up, the total estimated Expenditure of 1885-6, exclusive of the recent Vote of Credit, is £88,872,000. This is more than the Budget Estimate of last year, £85,292,000, by £3,580,000; and less than the total Expenditure of last year, £89,093,000, by £221,000.

I now pass from the Expenditure to the Revenue; and here I think I ought to explain the basis of my forecast, with special reference to the probable state of trade and agriculture, which we have, of course, to consider, when estimating what the Revenue may be. I said, last year, that I had to deal with very conflicting considerations. Trade, I said, was depressed, the profits on land received by

both owners and farmers were low, and Railway Receipts were falling. On the other hand, food was cheap, pauperism was decreasing, and the amount produced by each 1*d.* of the Income Tax was still slowly increasing. This year I do not think it will be possible to give quite so satisfactory an account. It is quite true that the profits from land and from trade are pretty nearly stationary; I do not think they can be said to be worse. [*Cries of "Worse!"*] I do not think so, judging from the information to which I have access, and which is collected with great care. It is also true that bread is still cheaper than it was last year, and that the produce of a 1*d.* Income Tax is still increasing. But the most remarkable fact in illustration of the prosperity of the country is that the Savings Banks' Deposits are steadily increasing. The Post Office and the other Savings Banks' Balances have increased by more than £3,000,000 during the last 12 months, and that increase is going on down to the present time. The account for the last month, compared with that for the preceding month, shows an increase of £250,000, which is just at the rate of £3,000,000 per annum. This is a most remarkable fact in connection with the progress of the country. On the other hand, pauperism appears to me to be beginning to increase; and there is an increasing desire to emigrate by no means confined to Ireland. I am sorry to say that I do not agree with Prince Bismarck in concluding that this is evidence of the prosperity of the country. Since last year there has been a still more serious fall in Railway Receipts; and these are, to my mind, an unfailing barometer of the condition of the country. Having, then, last year, framed my Estimate on evidence of a not altogether unfavourable state of matters, as affecting both the consumer and the payer of Income Tax, and that Estimate having been entirely justified, this year I shall not take quite so hopeful a view. I shall estimate on the basis of a moderately decreased consumption, a slight fall in the average of wages, and a stationary income for the middle and higher classes. That is the foundation upon which the figures I am about to give to the Committee are based.

I will proceed now, Sir, one by one, to the Estimates of Revenue. In

the first place, I divide, as I did last year, and the year before, Customs and Excise under three heads—Customs, exclusive of spirits; Excise, exclusive of spirits; and spirits by themselves. Customs without spirits we take at £15,800,000, as against £16,013,000 last year. This diminution, I ought to say, is occasioned by the Revenue of this year having been, as I have described, largely anticipated by payments in March and February, made in apprehension of increases of duty under the present Budget. Excise, without spirits, we take at £12,450,000, as against £12,613,000 last year. Spirits we take at £18,100,000, as against £18,295,000. Dividing the Customs and Excise Receipts from spirits *pro forma*, the figures will be, Customs, £20,000,000, as against an actual receipt last year of £20,321,000; Excise, £26,350,000, as against an actual receipt last year of £26,600,000. Stamps we estimate at £11,200,000, as against £11,925,000. I have already explained what it was that swelled the Receipts last year, of which we shall not have the benefit to any great extent this year. There is, besides, a steady falling-off in the Stamp Revenues other than the Death Duties. We take Land Tax at £1,050,000, against £1,065,000; House Tax at £1,880,000, against £1,885,000; and the Income Tax we estimate will produce at 5*d.* £10,000,000, against £12,000,000 at 6*d.* I take the Income Tax at 5*d.*, because since 1880 that has been the uniform rate, except when it has been disturbed for a special purpose, as it was twice for War Credits, and once to enable the Malt Tax to be converted into Beer Duty. We expect the Post Office to yield £8,000,000, against £7,905,000 last year; telegraphs, £1,760,000, against the same sum last year; Crown Lands, £380,000, the same as last year; and the interest on advances, £1,360,000, against £1,027,000. The last increase is due to a corresponding decrease last year, caused by the non-receipt of the Suez Canal interest. Two years' payment will be received this year, the second, under the recent Convention, at 4½, instead of 5 per cent. Miscellaneous Receipts we take at £3,200,000, against £3,175,000. The total Revenue for 1885-6, based on a 5*d.* Income Tax, will be £85,180,000, against £88,043,000 last year, with a 6*d.* Income Tax.

Before comparing this Estimate of Income with the Expenditure, it is important to observe whether there is anything exceptional to note on either side of the account. In the first place, we have to note that we shall have this year, either as interest on Suez Canal shares, or as Army contribution from Egypt, £544,000 belonging to last year; and this double payment will not accrue in future years. We are also the better by £92,000 than we shall be in future as to Debt charges. In these respects, in future years, we shall be worse off by £636,000. On the other hand, this is the last year of the Afghan Grant, amounting to £250,000; and the Army Estimates contain a temporary charge of £500,000 for the Bechuanaland Expedition. These items, two on each side of the account, about balance. But I must also point out to the Committee that in the Army Estimates of this year there is no provision for the defence of our commercial harbours, or for the improvement of the seaward defences of our great military ports. As to these, statements were made in both Houses on the 2nd of December last; by Lord Northbrook in the House of Lords, and by my hon. Friend the Secretary to the Admiralty (Sir Thomas Brassey) in this House; and they pledged the Government to full consideration of the Reports on these subjects, and to probable proposals for large expenditure in future years. This must be borne in mind when we consider what the future normal military expenditure, not including War Credits, is likely to be.

There is also one deduction from this year's Revenue to which we are pledged. I have included in the Estimate of Revenue the receipts for telegrams at the present rate. On the 1st of August, 6d. telegrams will come into operation. If the Bill which we have introduced passes in its present form, the loss for the current year will be £40,000. If addresses are to be free the loss will be vastly more. I allow for the loss of £40,000; and, deducting this amount, the Revenue, with a 5d. Income Tax, we estimate for the present year at £85,140,000, and the Expenditure at £88,872,000, showing a deficit of £3,732,000. To this sum we have to add, first, a reasonable allowance for Supplementary Estimates, which I take at £200,000; and, secondly, the Vote

of Credit for £11,000,000 adopted by the Committee on Monday last, making a total deficit of £14,932,000.

Before passing to the proposals which we have to make with a view to meeting this deficit, I will refer to one matter which may interest the Committee, I mean the net revenue of the Post Office during the last four years, disturbed as it has necessarily been by the initiation of the Parcel Post, and the preparations for 6d. telegrams. I do not include in the comparison I am about to make the expenditure out of other than regular Post Office Votes; as, for instance, that for buildings and stationery, which, I may say, is about balanced by extra receipts; although I include for 1882 the Inland Revenue expenditure on postal and telegraph stamps, which since then has been defrayed by the Post Office itself. I will now give the Committee the figures. In 1882-3 the aggregate Receipt of the Post Office was £9,010,000; the Expenditure, including that for stamps, was £6,176,000; so that there was a profit to the taxpayer of £2,834,000. In 1883-4 the Receipt was £9,475,000, and the Expenditure, £6,935,000, showing a profit of £2,540,000. In 1884-5 the Receipt was £9,665,000, and the Expenditure £7,126,000, showing a profit of £2,539,000. According to the Estimates which are now before the Committee for 1885-6, the Receipt is put at £9,720,000, and the Expenditure at £7,448,000, or a net profit of £2,272,000, £560,000 less than in 1882-3. Of course, the Committee will be aware that a very large amount of this Expenditure is and was in the nature of capital Expenditure in preparation for the Parcel Post, and still more in preparation for the establishment of 6d. telegrams. [Mr. W. H. SMITH: Exclusive of works and stationery?] Yes; excluding works and stationery on one side and extra receipts on the other.

I revert from this digression, which I hope the Committee will consider not devoid of interest, to the deficit of £14,932,000. It will be, no doubt, a matter of interest to the Committee to consider how this is to be met. It is, I believe, the largest deficit which has been placed before the House of Commons since the Crimean War; and, whatever we do to meet it, we must make a great demand on the patriotism of the people. Now, there

have been two governing considerations present to me when I discussed and decided with my Colleagues how we are to meet the whole or part of this deficit. In the first place, it appeared to me that it would be overstrained adherence to a sound general rule that we should raise, in a year like the present, taxes for the whole of the deficit, and not have recourse to what is popularly called the "Sinking Fund." By the Sinking Fund, I mean the sums set aside annually, in time of peace, for the steady reduction of Debt mainly raised and required for war; and, in my humble judgment, when war or active preparations for war on a large scale come upon us the *raison d'être* for the normal addition to the Sinking Fund is very much weakened. The second proposition which I maintain, and would submit to the Committee, is that the whole of the additional taxation which we have to raise on such occasions ought not to fall upon property. Among the benefits which were conferred on the community by the teaching of my late lamented Friend, Mr. Fawcett, none, I think, was more valuable than the stress which, in spite of its apparent unpopularity, he laid on this principle. Only a fraction of the present electorate pay, and a much smaller fraction of the future electorate will pay, any tax upon property, in the shape either of Income Tax or of House Tax, which is limited to houses of £20 value, and does not extend to Ireland, or of Land Tax, or of what are known as Death Duties. If, therefore, the whole of the additional Expenditure caused by war, or preparations for war, is met by taxes on property, those who will really control the military policy of the country will bear no charge for military operations. Now, on this subject, my own declarations, as well as the declarations of my right hon. Friend the Prime Minister, have been unambiguous. On the 21st of November last year, when I proposed to add 1d. to the Income Tax for the Expedition to Khartoum, I was challenged as to the unfairness of relying solely on charges upon property for expenditure of that character; and my reply was that, three or four months before the end of the financial year, it was impossible to obtain the Revenue which might be required by putting a temporary tax on articles of consumption; but I said

that "it was not right to go to the Income Tax alone, except in such cases of emergency towards the end of the year;" and I quoted the language, much more emphatic than mine, used by my right hon. Friend in former years. But I do not base the proposal I have now to make either on my own arguments, or on those of my right hon. Friend, or on those of the late Mr. Fawcett; but I have carefully analyzed, with great pains, and I think with accuracy, the Revenue raised from articles of consumption and from property respectively during the last quarter of a century, and I will give to the Committee very briefly the result of that inquiry. I shall compare, then, the Revenue from articles of consumption, including tobacco and liquor licences on one hand, with the Income Tax, the Land Tax, the House Tax, the Death Duties, and establishment licences, on the other hand, at four different periods. I take as the first that of 1858-9, after the Crimean War, when our Expenditure was relatively low. I take as the next that of 1868-9, the closing year of Lord Beaconsfield's first Government, when it happened that the Income Tax was just at the same rate as now; and I take as the third the year 1875-6, a year in Lord Beaconsfield's second Government, when wages were high and consumption was high. Then I compare the results of those years with our Revenue from these sources, according to the Estimates for the present year. Now, the comparison, I admit, may not be quite perfect, because I have to omit the rest of the Stamp Revenue, which it is impossible to distribute with anything like accuracy between property and trade; but the figures which I give to the Committee I am able to guarantee. In 1858-9 the Revenue from articles of consumption was £39,800,000, while the taxes on property and establishment licences produced £13,200,000. In 1868-9 articles of consumption paid £41,000,000, while the taxes on property amounted to £16,500,000. In 1875-6 articles of consumption paid £45,400,000; taxes on property produced £13,200,000. The Estimates for 1885-6, as I have stated them, show, without any additional taxes, a Revenue from articles of consumption of £44,300,000, while taxes on property, with the Income Tax at 5d., would produce £20,700,000. From this

comparison it will be seen that, while the taxes on articles of consumption produce only 11 per cent more than in 1858-9, 8 per cent more than in 1868-9, and 2½ per cent less than in 1875-6, the taxes on property, taking the Income Tax at 5d. only, produce 57 per cent more than in 1858-9, 26 per cent more than in 1868-9, and 57 per cent more than in 1875-6. But I will make a further comparison—I hope the figures will not weary the Committee—I will make a further comparison between the Revenue from articles of consumption as estimated now and as actually received in 1875-6, dividing it between the duties and receipts in connection with fermented and spirituous liquors and the duties on other articles of consumption. Of the £45,400,000 received in 1875-6, £33,500,000 was Revenue from liquor; but of the £44,300,000 estimated now for 1885-6 only £29,800,000 is from liquor, the receipts from other articles having risen from £11,900,000 to £14,500,000. I have drawn from these facts two conclusions, which I will state with all modesty to the Committee. The first is that, during the last 30 years, there has been a gradual and moderate relief of the consumer as compared with the owner of property; that this policy should, in my opinion, be steadily persevered in; but that when a large addition is to be made to taxation, it should not be allowed to fall entirely on property. The second conclusion which I have come to is that, having regard to the change in the incidence of indirect taxation during the last 10 years, liquor, rather than other articles of consumption, should be subjected to a moderate increase of taxation.

Before, then, stating to the Committee the proposals which I intend to make as to the taxation of property and articles of consumption, I will say, in the first instance, what I do now propose to do. I do not propose any, strictly speaking, new tax; and in that respect I am afraid I shall disappoint many thousands of ingenious persons who have written to me on the subject within the last few months. There may or may not be in this country an "ignorant impatience of taxation;" but certainly there exists an amazing fertility of invention in regard to new taxes, especially when those new taxes do not fall on the inventors. I have received hundreds

of proposals to tax cats, and soda water, and photographs, and bicycles, and advertisements, and even Christian names. Certainly, these would not have gone far to make good the deficit in the Revenue. But other proposals have been made to me which would, no doubt, give a much larger Revenue. I have been requested to ask Parliament to re-impose the Duty on Sugar; to increase the Tea Duty, which is already 48 per cent on the value of the article; I have also been asked to put a tax on all coal raised, and even to tax gas, and petroleum, and other oils. Well, Sir, I shall propose none of these taxes. I will have nothing to do, except in the last emergencies of war, and, indeed, hardly then, with the imposition of taxes upon raw materials, or on the necessities of life, or on the means of providing warmth and light, or with any duties of a protective character; and, therefore, I am limited to a much smaller number of alternatives, which I will explain later to the Committee.

What I do propose, then, in the first instance, is a tax upon property. I propose to raise the Income Tax, which, according to the Budget of last year, was 5d. in the pound, or which, under the Supplementary Budget of November, was 6d., to the amount of 8d. in the pound. That is to say, I ask for 3d. more Income Tax than under the Budget of last year, and 2d. more than the actual payment for that year.

Now, it should be borne in mind that the Income Tax, so increased, will be much less than it was when the military charges, about a quarter of a century ago, were increased, to anything like the extent to which it is now proposed to increase them. The Committee will remember what led to the necessity for larger armaments and increased taxation in the year 1859-60. In that year the Army and Navy Estimates were increased by £5,200,000, and the Income Tax was raised to 9d., or 1d. more than I propose to raise it now. In the following year, 1860-1, when the Army and Navy Expenditure included £3,000,000 for the China War, the Income Tax was raised to 10d. in the pound, and a 9d. rate was continued both in 1861-2 and 1862-3. Remembering, therefore, what was deemed necessary at that time, I do not think that the Committee will

consider me extravagant if, under the present circumstances, I propose an Income Tax of 8*d.* That rate of Income Tax is estimated to produce, over and above the 5*d.* rate, the sum of £5,400,000.

I may say here, as a matter of some interest, that in connection with this increase of the Income Tax we have made arrangements, with the full consent of the City Commission, which is so well represented by my right hon. Friend opposite the Member for the City (Mr. Hubbard), and by my hon. Friend who sits behind me, the Member for Gravesend (Sir Sydney Waterlow), from whom we receive so much assistance, to reduce the poundage paid to assessors and collectors, which would be extravagant at the present scale if the Income Tax is to be raised. This reduction will only affect the larger rate of remuneration. In connection also with the Income Tax, I wish now to fulfil a pledge which I gave last year to the hon. Member for West Norfolk (Mr. Clare Read), and other Members of this House, that I would inquire very carefully into the incidence of Schedule B on the British farmers. I have carefully studied the difference between the charge paid by the farmers in England and that paid by the Scotch and Irish farmers. With an 8*d.* Income Tax, for instance, the English farmers would pay on 4*d.*, and the Scotch and Irish farmers on 3*d.* I am bound to say that this can only be justified as a rough-and-ready arrangement, although one not altogether inequitable. But though this provision cannot be justified on strictly mathematical principles, it is, at the same time, one very difficult to change; and I do not propose in the present year to make any change. But I have a suggestion to throw out to farmers, which I should be very glad if they would consider before the next Budget is prepared, and it is this—that instead of being charged Income Tax on an arbitrary amount having relation to their rent, why should they not pay, like every other business man, upon their net profits? Every other person carrying on a trade pays upon his net profits. Why should not farmers do the same? I know it is said that farmers are so ignorant and unbusiness-like that they do not keep books, and do not know what the net profits of their businesses are. I deny, however, that the

farmers, as a class, are either ignorant or unbusinesslike; and as to keeping books, I can only say that, under the new Bankruptcy Act of my right hon. Friend the President of the Board of Trade, if a farmer gets unfortunately into the Bankruptcy Court, he will get into serious trouble if he pleads that he had not kept accounts. In the present Budget, as I have said, I propose no change in this matter; but I hope that farmers will consider my suggestion, and will not discard it merely because it is a change. I will give one reason which may have weight with them. If a farmer pays under Schedule D, he will be able to appeal, not only as now to the Local Commissioners, where he will probably meet his squire and his banker, but to the Special Commissioners, who go on circuit through the different districts of the country, and who are absolutely unconnected with the locality. That, I believe, would be a great advantage to farmers, besides the obvious benefit of paying, like other people, according to their profits.

I now pass, Sir, from the Income Tax to my next proposal. I propose to put into operation—although it will produce but a small sum this year—the final reform of what are popularly called “the Death Duties.” There are two branches of the proposal which I am about to make, the one assimilating the incidence of the tax on real to that on personal property, and the other imposing an equivalent duty upon corporate property. I will first deal with the proposed changes in the taxation of real and personal property, passing from one person to another in consequence of death. As the Committee is aware, there are now four taxes which are imposed on property devolving by death—namely, (1) Probate Duty, called in Scotland “Inventory Duty;” (2) Account Duty, imposed as a defence to the Probate Duty; (3) Legacy Duty; (4) Succession Duty. Successions to personal property, including leasehold property under will or intestacy, and personal property passing under voluntary deeds, are liable to two of these taxes—Probate or Account Duty, and Legacy or Succession Duty; whereas personal property, passing by marriage settlement and successions to real property, are liable to one only—namely, Succession Duty. The Resolutions I

am about to lay before the Committee will, if adopted, remedy this anomalous state of things by imposing an actual Probate or Account Duty, or an equivalent tax on all property passing on death by will or by settlement. An actual Probate or Account Duty will be imposed on all property other than charges by way of annuity on real estate and real estate itself. These two classes of estates will be charged with increased Legacy or Succession Duty, as the case may be. The new tax will not in any way be retrospective, and it will only be imposed on successions by death which may occur after this date. The Resolutions will be three in number. The first will, in the shape of Probate or Account Duty, include—firstly, property locally situate abroad belonging to a person domiciled in the United Kingdom; secondly, all charges on real estate, other than charges by way of annuity; thirdly, real estate directed to be sold, all these being, under the existing law, now exempt from Probate Duty. The 1 per cent Legacy and Succession Duty on properties where this new Probate and Account Duty is paid will be abolished, so as to assimilate the practice with the Act of 1881, which has been most successful in its operation. The 2nd Resolution imposes, in the shape of Succession Duty, as an equivalent of the Probate Duty, a rate of 3 per cent on all properties which are now exempt from Probate or Account Duty, and do not come within the scope of the 3rd Resolution. In this equivalent rate the Succession Duty of 1 per cent is absorbed. Provision is also made that leaseholds under wills or intestacies, which already pay Probate Duty, are not to be charged with the additional tax. Reversionary rights already sold are not to be charged to the new tax. There is a further provision that, in the case of personal property settled on a husband or wife for life, with remainder to children, the duty is to be paid at once and for all. The 3rd and last Resolution imposes, in the shape of Legacy Duty, as an equivalent of Probate Duty, a rate of 3 per cent on all legacies charged by way of annuity on real property. In this equivalent rate the 1 per cent Legacy Duty is also absorbed. The scope of this last Resolution will be very limited, as it only applies to legacies by way of annuity charged on real

property. When effect shall have been given to the Resolutions which I have now explained, an equal tax will have been imposed, as far as possible, on all successions to property by death, whether the property be real or personal; but it is impossible that it can be paid in the same manner. Probate and Account Duties are now payable by law within six months from the date of death; but, practically, it is found by experience that Probate Duty is paid much within the time allowed by the law, for it is the interest of the executor or trustee to take out probate as soon as possible, for without it he is not entitled to touch any of the personal property of the deceased. I propose to shorten the period of payment of Account Duty to three months, which will not create any difficulty. Legacy Duty is due when the legacy, or share of residue, is paid to, or retained for, the use of the legatee. This I do not mean to alter, nor the Succession Duty in the case of personal property, which is to be paid exactly in the same way as Legacy Duty. But in the case of real property the tax is now payable by eight half-yearly instalments, the first of which is due 12 months after the successor becomes entitled to the beneficial enjoyment of his succession. For these eight half-yearly instalments, I propose to substitute four annual payments. In future, real property to be enjoyed by a person absolutely, or as tenant in tail, will be taxed upon the capital value, and not only on the life interest; but this tax will only have to be paid, as well as the tax on charges on real estate by way of annuity, in four annual instalments. Before passing from this part of the subject, I would again observe that in the matter of Probate, Legacy, and Succession Duties there has hitherto been one law for real estate and another for personal estate. Personal estate has been subject to Probate Duty—real estate has been exempt from it. Personal estate has been subject to Legacy and Succession Duties, with reference to its full market value. Real estate has been taxable with reference only to its value for the successor's life, although he may have been in a position to sell it and put in his pocket the full market value of the estate. This inequality will be adjusted, and real estate will no longer bear what my right hon. Friend the Prime Minister has called

"a very small and disproportionate share of these taxes."

The financial effect of the scheme I have thus briefly laid before the Committee will, it is estimated, be, in the present financial year, a sum not exceeding £200,000; in the second, £400,000; in the third, £550,000; in the fourth, £700,000; and, finally, £850,000. Against that gain I should set off a loss, not very considerable, to arise from the relief from the *ad valorem* duty of 5s. per cent upon settlements which are dispositions conferring successions. As I have already explained, this additional Revenue will be derived partly from personal estate not now paying Probate Duty, and partly from real estate, also now exempt from Probate Duty; and when it is remembered that Parliament in 1853, in passing the Succession Duty Act, sanctioned the raising of a sum of £2,000,000, whereas no greater sum than £850,000 has ever been realized from that source, I feel confident that the burdens I am now seeking to impose on real property will, at any rate, be considered as reasonable and moderate.

I now pass to the second branch of this subject—namely, the tax which I propose that Corporations should pay as an equivalent for the Death Duties. Having, by the scheme laid before the Committee, succeeded, I hope, in equalizing the burdens arising from successions upon death in real and personal estate, I will allude briefly to a class of property which enjoys the same privileges and the same protection under the law, but is exempted—and, I think, unjustly exempted—from many of the duties arising on death. Corporations are immortal; but this immortality should not relieve them from a tax falling on others who do not enjoy this advantage. The subject is one involving a great principle, rather than one which will bring in much Revenue into the Exchequer, for although I believe it will be the wish of the Committee that property held in mortmain should not altogether escape a tax on succession by death, yet I am sure that it is not my wish, or their wish, indiscriminately to lay a tax on all property vested in Corporations, irrespective of the purposes for which the property, or the income arising from it, may be applied, the time within which the property was acquired, or the nature

and character of the Corporation itself. The Resolution which I shall lay upon the Table of the House, therefore, proposes altogether to exempt religious bodies and charities, and is framed with the intention of not taxing societies in respect of incomes derived from the donations and contributions of living persons. Further, it is proposed to exempt property belonging to Corporations for trading purposes, which is represented by shares already liable to Death Duties as the property of individuals, and property which shall be legally applied exclusively for the benefit of the public at large, or belonging to any friendly society, or which has been acquired within the last 30 years. The Resolution lays down that there should be imposed upon the income of the Corporations, as defined in it, a duty of 5 per cent per annum, to be charged and paid upon an account to be rendered to the Commissioners of Inland Revenue at the close of the first half of each financial year, subject to the exemptions to which I have already alluded, and others set forth in detail in the Resolution, with which I will not now trouble the Committee. It must be remembered that if a Corporation could be supposed to die, the property passing to its successor would pay on a duty of 13 per cent; but it would be unfair to suppose that the higher rate of succession to a stranger would always be incurred, and therefore I only propose to impose an annual tax of 5 per cent, my object being, as I said before, not so much to swell my receipts as to establish a principle at once fair and equitable. I need not say that I have very carefully considered the important Mortmain Return prepared on the Motion of my hon. and learned Friend the Member for Chelsea (Mr. Firth); but, though it is true that corporate property is in the aggregate large, when you come to proceed upon principle in dealing with exemptions you find that a great proportion of that property must be treated as exempt, and I do not venture to put the estimate of the yield of the tax for the year at a higher amount than £150,000.

The duties which I have described fall under the head of Stamp Revenue; but, before passing from it, I will refer to a slight additional source of Revenue in connection with stamps. Bonds and foreign securities payable to bearer only

pay now a Stamp Duty of 2s. 6d. per cent on issue or first negotiation, and are then free from all transfer duty; whereas registered Stocks and Shares pay duty every time they change hands, the latter 10s. per cent. We propose to lessen this difference by imposing the original stamp of 10s. per cent on all the securities I have named, transferable to bearer. This will produce about £100,000 per annum.

I now pass to articles of consumption. The Committee will have gathered, from my earlier remarks, that I propose to deal with fermented and spirituous liquors. As to spirits, we have satisfied ourselves that they may now well bear an increased duty. It is more than 20 years since the present rates were fixed, and experience shows that we need not be deterred from raising them by the fear of smuggling or of illicit distillation. We propose, then, to raise the duty upon home-made spirits from 10s. to 12s., and upon foreign and Colonial spirits from 10s. 4d. to 12s. 4d. a-gallon. This we calculate will produce during the present year, under the head of Customs and Excise, about £900,000. Of course, this is based upon some reduction in consumption. At the present time the consumption is about 36,000,000 gallons, producing above £18,000,000 a-year. If the higher duty produces only £900,000 more, a simple sum in arithmetic will show that the consumption will have fallen below 32,000,000 gallons. It is no business of mine, as Chancellor of the Exchequer, to say whether that is to be regretted or not.

I pass to the article of beer. Beer now pays 6s. 3d. per barrel of 36 gallons, or a little over 2d. per gallon. Roughly speaking, that is about 20 per cent on the value of the article free of duty. If the duty on spirits is to be raised—of which, in proportion to the population, there is probably more drunk in Scotland and Ireland than in England—I could not be a party to such a proposal, unless a fair increase were made in the duty upon beer, of which, if I remember aright, fully 11-12ths are drunk in Great Britain as compared with Ireland. Now, Sir, by increasing the duty on beer from 6s. 3d. to 7s. 3d. per barrel of 36 gallons, we hope to get during the year £750,000, or about 9 per cent more than the present Revenue. The additional £900,000 gained upon spirits

is only about 5 per cent of the existing receipts; but the increased rate of duty is slightly more in the case of spirits.

I now pass to the Wine Duties. The duty upon wine, which has remained the same, with but slight change, since 1860, was fixed not solely with reference to fiscal considerations. It had been nearly 6s. a-gallon, when it was reduced to 1s., or, on stronger wines, to 2s. 6d. per gallon, in connection with the Commercial Treaty with France. Since then the Wine Duties have been more than once used as weapons to obtain Commercial Treaties with wine-growing countries. But, irrespectively of this consideration, the Committee should observe, as to the relative incidence of duty upon beer and wine, that wine pays somewhat a larger percentage on its value than even beer. The Wine Duties are, on the average, about 25 per cent on the value of that article; the Beer Duty is barely 20 per cent. We do not propose to alter the Wine Duties generally; but I have an important proposal to bring before the Committee with regard to the Wine Duties, to give effect to the Declaration with Spain of the 21st of December last, which has been laid before Parliament in the Paper "Commercial, No. 2," of the present Session, as to which several questions have been asked from various parts of the House. The Committee is aware that, in 1877, the Spanish Government withheld from British trade the benefit of certain reductions then made in the Spanish Customs Tariff, on the ground that the Wine Duties in the United Kingdom were really differential against Spain. This action of the Spanish Government led to a long correspondence, and also to the appointment of a Committee of this House, in 1879, to report on the Wine Duties. They recommended "a duty of 1s., with a limit of strength to be determined by the Executive," and that the alcoholic test should be maintained; and they pronounced an opinion that an *ad valorem* scale of duties would be impracticable. No useful purpose would be served by entering upon the long controversies which ensued; but, in offering Great Britain most-favoured-nation treatment in 1883, the Spanish Government went beyond the offer made in previous years, and Her Majesty's Government felt themselves fully justi-

fied in agreeing to raise the limit of the 1s. duty from 26 to 30 degrees. It is of importance to trade that the arrangement between the two Governments shall take effect as soon as possible. The Spanish Government will be informed, as soon as the necessary measure authorizing this change has been passed by this House; and a date, of which public announcement will be made, will be fixed for the simultaneous application of the terms of the Declaration of the 21st of December, 1884. Our thanks are due to the several Spanish Ministers who have taken part in these prolonged negotiations, in which success has ultimately attended the labours of Sir Robert Morier, who has shown great ability and energy in overcoming serious difficulties. I must no less acknowledge the loyalty of the present Spanish Ministers in taking over in their substance the engagements entered into by their Predecessors, and the friendly and straightforward manner in which they have defended the Declaration before the Cortes. I may say that negotiations for a complete Commercial Treaty with Spain will commence in the autumn, in order that engagements which may require legislative sanction may be submitted to the Cortes and to Parliament in the ensuing Session. I may say that we do not anticipate any diminution in the Revenue from wine, for whatever loss may be expected on wines between 26 degrees and 30 degrees of strength will be made good by the increased consumption due to the higher Spirit Duty and the diminished use of spirits.

I may here mention two small changes which we propose in connection with indirect taxation. We were pressed last year by hon. Gentlemen sitting on both sides of the House to allow private brewers' licences to be taken out for a half-year only. I think that a concession in this respect may be properly made, and I propose to allow a private brewer's licence to be taken out for a half-year for 4s., where the charge for the whole year is 6s., and for 6s., where the charge for the whole year is 9s. The half-years will end in March and September respectively. I do not believe that there will be any loss of Revenue from the change.

The other change relates to Patent Medicines. The Committee are aware that a Bill has been introduced by the

Lord President into the House of Lords which will meet some of the complaints in connection with the sale of patent medicines. We also propose that foreign medicines be treated, in respect of the Patent Medicine Tax, precisely as British medicines—that is to say, they will only be regarded as dutiable if they are held out as Proprietary or as specifics. Further, the stamp will be altered, so as to show clearly and make it plain that there is no Government guarantee of the medicine. The Revenue will not be materially affected by these alterations.

The additional taxes which I have enumerated account for £7,500,000 out of a deficit of £14,932,000, leaving a sum of £7,432,000 to be provided for. The Committee, I think, will have conjectured, from what I said in the early part of my Statement, how I propose to meet this remaining deficit—that is to say, out of the sum annually applied to the reduction of Debt. Popularly, as I have already said, that sum is called the "Sinking Fund;" but this is not a strictly accurate description, and I will state the exact facts to the Committee. The sums devoted by law to the reduction of Debt are so applied under several old Acts, as well as under the Act of the right hon. Gentleman opposite (Sir Stafford Northcote), passed in 1876, and under the Act which I asked Parliament to pass in 1883. They consist of virtually four classes. The first is so much of outstanding Terminable Annuities of all kinds as represents capital, and this amounted last year to about £5,600,000. The second is the difference between the sum of £28,000,000, as settled by the Act of 1876, and the charges on it, which are mainly for interest on Funded and Unfunded Debts and Terminable Annuities. That is called the "New Sinking Fund," and it amounted last year to above £500,000. The third class consists of the amount of Stock cancelled on grants of Life Annuities, compositions of Land Tax, and small transactions of that kind, and that amounted last year to nearly £1,500,000. The fourth sum applicable to the reduction of Debt is the surplus of the Income of each year over the Expenditure, which is called the Old Sinking Fund. Altogether, then, in 1885-6 the sums applied to the reduction of Funded and

Unfunded Debt will amount to something under £7,600,000. But of these four sources, the only payments we propose to intercept are those under what I call No. 1—namely, that part of the outstanding Terminable Annuities which represents capital. Of course, the Old Sinking Fund, No. 4, has disappeared this year, as there will be no balance of Income over Expenditure, and it would be impracticable to interfere with the reduction of Debt in connection with Life Annuities and similar operations. Nor do we propose to touch the New Sinking Fund. All, then, that we propose now is, to intercept this year the principal of the Terminable Annuities created in 1883, extending for a year the operation of the Act; and the difference between this sum of something over £4,600,000 and the £7,412,000 will be borrowed temporarily, so far as may be necessary, in Unfunded Debt. This addition to the Unfunded Debt will not, as I have explained, exceed the diminution in the Funded; but we propose in 1886-7 to pay it off out of the capital of the Terminable Annuities, in the same way as we propose to apply for the same purpose £4,600,000 this year. We also propose to take power to meet the deficit of last year by borrowing in Unfunded Debt, if it should be found necessary. I am aware that this part of my Statement is highly technical, and almost impossible fully to elucidate at the end of a long speech; but I propose to lay on the Table a Treasury Minute which will explain the operations more fully.

I will now recapitulate the figures which I have laid before the Committee. The net deficit for the year, calculating the Income Tax at 5*d.* in the pound, is £14,932,000. We propose to intercept the action of the Sinking Fund during this year, so as to produce something over £4,600,000. By raising the Income Tax to 8*d.* we get £5,400,000. The Death Duties will produce £200,000. We calculate that the duties to be imposed on Corporate Property will yield £150,000; the increase in the Spirit Duties £900,000, and the increase in the Beer Duty £750,000. The minor charges will produce £100,000, making a total of £12,100,000, and leaving a deficit of about £2,800,000 to be met by a

similar Sinking Fund operation during the coming year.

I am very much obliged to the Committee for having listened with so much attention to the long Statement which it has been my duty to address to them, and I hope I have made myself perfectly clear. I have now to ask the House to pass the necessary Resolutions, so that the increases of duty may take place to-morrow morning, although, as the Committee is well aware, such increases are always subject to repayment should the proposals of the Government not be adopted. As regards the altered Death Duties, the tax on corporate property, and the additional stamp on securities to bearer, those, of course, will not be put in operation until after the Act is passed; but with regard to the Resolutions relating to the Customs, Excise, and Income Tax, it is necessary that they should take effect at once. In conclusion, I may say that, if it will suit the convenience of the House, I do not propose to take the second reading of the Customs and Inland Revenue Bill until this day fortnight, so that there may be ample opportunity for considering the proposals of the Government.

Motion made, and Question proposed,

"That, towards raising the Supply granted to Her Majesty, there shall be charged, collected, and paid for the year which commenced on the sixth day of April, one thousand eight hundred and eighty-five, in respect of all Property, Profits, and Gains mentioned or described as chargeable in the Act of the sixteenth and seventeenth years of Her Majesty's reign, chapter thirty-four, the following Duties of Income Tax (that is to say):

For every Twenty Shillings of the annual value or amount of Property, Profits, and Gains chargeable under Schedules (A), (C), (D), or (E) of the said Act, the Duty of Eight Pence;

And for every Twenty Shillings of the annual value of the occupation of Lands, Tenements, Hereditaments, and Heritages chargeable under Schedule (B) of the said Act,—

In England, the Duty of Four Pence;

In Scotland and Ireland respectively, the Duty of Three Pence;

Subject to the provisions contained in section one hundred and sixty-three of the Act of the fifth and sixth years of Her Majesty's reign, chapter thirty-five, for the exemption of persons whose income is less than One Hundred and Fifty Pounds, and in section eight of 'The Customs and Inland Revenue Act, 1876,' for the relief of persons whose income is less than Four Hundred Pounds."—(*Mr. Chancellor of the Exchequer.*)

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